



W1-260-1-6

**JOMO KENYATTA UNIVERSITY  
OF  
AGRICULTURE AND TECHNOLOGY**  
University Examinations 2017/2018

**YEAR I SEMESTER II EXAMINATION FOR THE DEGREE OF BACHELOR OF  
PROCUREMENT AND CONTRACT MANAGEMENT**

**HPS 2110: FINANCIAL ACCOUNTING II**

**DATE: AUGUST 2018**

**TIME: 2 HOURS**

**INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO QUESTIONS**

**Question 1.**

- a) Clearly distinguish between the following terms
  - i. Authorized share capital and issued share capital (2marks)
  - ii. Period costs and product cost, give examples (2 marks)
- b) What factors may lead to existence of goodwill in a business? (4 marks)
- c) Shidana LTD has an authorized share capital of Sh.500,000 consisting of 350,000 of ordinary shares of Sh.1 each and 150,000 7% preference shares of Sh.1 each ; of these 260,000 ordinary shares and 90,000 preference shares had been issues when the company first stated trading. The following information is available.
  - i. The first three years of business resulted in net profits as follows, 2010, Sh.62,000; 2011 Sh. 81,900; 2012 Sh.114,190
  - ii. The dividends were paid each year on the preference shares, dividends for ordinary shares were proposes as 2010, 8%; 2011, 8%; 2012,12%
  - iii. Corporation tax based on profits was; 2010 Sh.12,000; 2011 Sh.16,000; 2012 Sh.22,000

Required; show the profit appropriations accounts for each year for the three years. (10 marks)

- d) Outline your understanding of the external annual audit and why conducting one is considered important for many limited companies. (3 Marks)
- e) Explain the nature of a lease agreement (5 marks)
- f) Describe how the financial accounting concept of substance over form applies to the accounting area of leases (3marks)

**Question 2.**

The following trial balance has been extracted from the books of Ahadi traders as at 31/12/2016, the year end for the firm.

	DR(Sh.)	CR(Sh.)
Capital (1.7.2015)		478,000
20% 5 yr loan		292,000
Inventory	538,000	
Interest paid	12,000	
Factory plant	300,000	
Provision for depreciation		157,000
Motor vehicles	320,000	
Provision for depreciation		123,000
Buildings	315,000	
Wages	285,000	
Sales		2,064,000
Purchases	999,000	
Plant hire	9,000	
Returns inwards	15,000	
General expenses	511,000	
Accounts payable		514,000
Accounts receivables	530,000	
Provision for bad debts		20,000
Production overheads expense	70,000	
Bank		286,000
Motor vehicles expenses	<u>30,000</u>	
	<u>3,934,000</u>	<u>3,934,000</u>

Additional information:

- i. The inventory figure in the trial balance incorporates:
  - (a) Raw materials; Sh.248,000
  - (b) Work in progress; Sh.105,000
  - (c) Finished goods; Sh.185,000
- ii. General expenses are apportioned between the office and the factory in the ratio of 1:4 respectively.
- iii. Included in the general expenses are prepaid rates of Sh.34,000
- iv. Professional accountancy fee of Sh.10,000 to be provided for at the year end
- v. A debtor of Sh.40,000 has gone bankrupt. Provisions for bad debts is to be maintained at 4% of debtors at year end.
- vi. Depreciation is to be provided for as follows:
  - (a) Motor vehicles at 20% on a reducing balance
  - (b) Plant at a rate of 10% on straight line method.
- vii. Closing inventory of raw materials, work in progress and finished goods was determined at Sh.170,000; Sh.140,000 and Sh.160,000 respectively.

**Required:**

The firms manufacturing income statement and statement of financial position as at 31.12.2016  
[20 marks]

### Question 3.

Gelani, Mose and Ahmed have a long time traded in a partnership as GMA and Associates. Gelani has just won a green card to the United States of America. He decided to pull out from the partnership business effective 30 April 2016.

The balances in the equity accounts as at 1<sup>st</sup> May 2015 were,

	Gelani	Mose	Ahmed
Current accounts(sh.)	67,200	28,800	(38,400)
Capital accounts(sh.)	960,000	840,000	720,000

The books value of assets as at 1<sup>st</sup> May 2015 had been shown as follows,

	Sh.
Buildings	2,880,000
Machinery	960,000
Inventory	528,000
Debtors	432,000

The GMA and Associates partnership deed had the following clauses,

- The partners share profits in the ratio of 3:2:1 for Gelani, Mose and Ahmed respectively.
- The partners draw annual salaries of Sh.540,000; sh.840,000; and sh.672,000 for Gelani, Mose and Ahmed respectively
- The partners earn interest on capital balances outstanding at the beginning of each year at the rate of 10%

The following events took place in the course of the year ended 30<sup>th</sup> April 2016

- GMA and Associates had made a net profit of Sh.3,237,696 for the year.
- Drawings for the year amounted to Sh.528,000; Sh.408,000; and Sh.600,000 for Gelani, Mose and Ahmed respectively

The agreement upon exit of Gelani provided for the following.

- Mose and Ahmed to go on with the business and agreed to share profits in the ratio of 3:2
- The firm's assets to be revalued at the following values as on 30<sup>th</sup> April 2016

	Sh.
Buildings	3,264,000
Machinery	840,000
Inventory	432,000
Debtors	408,000

- Following the exit of Gelani, Mose and Ahmed were to contribute a total of an additional capital of Sh.700,000 shared equally.

### **Required.**

- An appropriation statement for GMA and Associates for the period ending 30<sup>th</sup> April 2016 (6 marks)
- GMA and Associates Partners current accounts as at 30<sup>th</sup> April 2016 (6 marks)
- GMA and Associates Partners capital accounts as at 30<sup>th</sup> April 2016 including the necessary adjustments following Gelani's exit ( 8 marks)



**Question 4.**

Kambi Ndogo Ltd has the following balances at 31<sup>st</sup> December for the last two years,

Assets	2017 sh: Millions	2016 sh: Millions
Cash	10	15
Short term investments	0	65
Accounts Receivable	375	315
Inventories	615	415
New Plant	<u>1000</u>	<u>870</u>
	<u>2000</u>	<u>1680</u>
Liabilities and Equity	60	30
Notes payable	110	60
Accruals	140	130
Long term bonds	754	580
400,000 Preference shares	40	40
50M Ordinary shares	130	130
Retained Earnings	<u>766</u>	<u>710</u>
	<u>2000</u>	<u>1680</u>

INCOME STATEMENT

Net sales	3000	2850
Operating costs	(2616.2)	(2497)
	383.8	353
Depreciation	(100)	(90)
	283.8	263
Interest	(88)	(60)
	195.8	203
Tax (40%)	(78.5)	(81.2)
	117.5	121.8
Dividend paid	(61.5)	(57)
Retained earnings	56	64.8

From the above information, **compute and comment** on the liquidity, profitability and leverage ratios and activity ratios of the company **(20 marks)**

**Question 5.**

- a. Smith Limited entered into the following contract during the year ended 31 July 2017. Items of specialized equipment were leased at a cost of Sh. 8,000 per month payable in advance. The lease term is for two years from 1 October 2016 and can be cancelled at any time by either party to the lease. Any maintenance is to be carried out by the lessor. The equipment would have a cost of Sh. 300,000 if purchased in the open market and is expected to have a useful life of seven years.  
Classify this type of a lease and give reason. (4 marks)
- b. Heko Ltd was incorporated in 2015 with an authorized share capital of 4,000,000 shares of sh. 10 each. In the same year, it issued 500,000 shares at sh. 12 each which were fully paid. In the year 2016, the company invited applications for 800,000 shares payable as follows:
- |                 |                             |
|-----------------|-----------------------------|
| On application, | sh. 3                       |
| On allotment    | sh. 5                       |
| First call      | sh. 3                       |
| Second call     | sh. 4 (including a premium) |

Applications were received for 1,600,000 shares

The directors decided to deal with the application as follows,

Allot fully applications for 1,600,000 shares

Reject and refund money for 200,000 shares

Allot the remainder on a pro-rata basis and apply excess application money for subsequent calls

One person allotted 2,000 shares failed to pay for the final call, the shares were forfeited and later re-issued to another person at sh. 8 per share as fully paid.

Required: journal entries to record the issue of shares in 2016 (16 marks)